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Presentation to the Finance Committee & Strategic Planning Committee of

PROJECT CHESAPEAKE

NOVEMBER 21, 2000

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OVERVIEW OF HIGHMARK AND TRIGON

The table below offers a high level side-by-side comparison of Highmark, Trigon and CareFirst on a number of key statistics.

	Highmark	Trigon	CareFirst
Corporate Status	Not-for-profit, non-stock member corporation	For-profit	Not-for-profit, non-stock member corporation
Tax-Status	Federal - taxable State - tax-exempt	Federal - taxable State - taxable	Federal – taxable State – tax-exempt(1)
1999 Blue Cross Blue Shield ("BCBS") Members	4.7 million	1.9 million	2.8 million
1999 Total Members	19.1 million(2)	1.9 million	2.8 million
1999 Revenue (3)	$7.7 billion	$3.3 billion	$5.0 billion
1999 Net Income(4)	$68.6 million	$74.9 million	$74.0 million
Reserves	$2.2 billion	$937 million	$598 million
Employees	13,000	3,711	6,400
Operating Territory	Operates in 29 counties of western Pennsylvania as Highmark BCBS and the remainder of the counties as Pennsylvania Blue Shield Primary licensee for the BCBS market in West Virginia	Primary service area is Virginia	Maryland as CareFirst of Maryland, Inc., Washington, D.C., and Northern Virginia as Group Hospitalization and Medical Services, Inc., and Delaware as BCBS of Delaware
Major Strategic Affiliations	Independence Blue Cross, Capital Blue Cross, Mountain State Blue Cross Blue Shield, Blue Cross of Northeastern Pennsylvania and numerous other Blue Plans for Dental & Vision products	NA	BCBS of Maryland, BCBS of the National Capital Area, BCBS of Delaware
Subsidiaries	9 (100% owned) 6 (50%)	9 (100% owned) 1 (80% owned) 1 (51% owned)	10 (100% owned)

(1) Income from indemnity product is tax-exempt.
(2) Includes ancillary members.
(3) Based on Premium equivalents.
(4) Excludes non-recurring charges.

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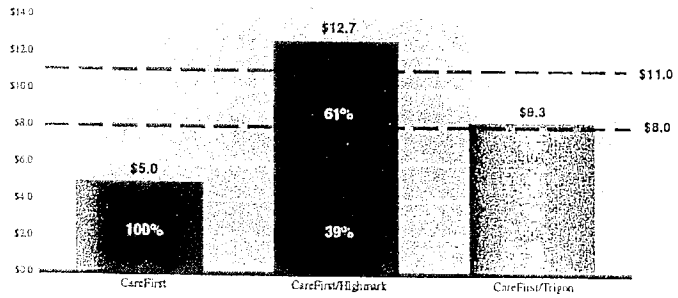
STRATEGIC GOALS

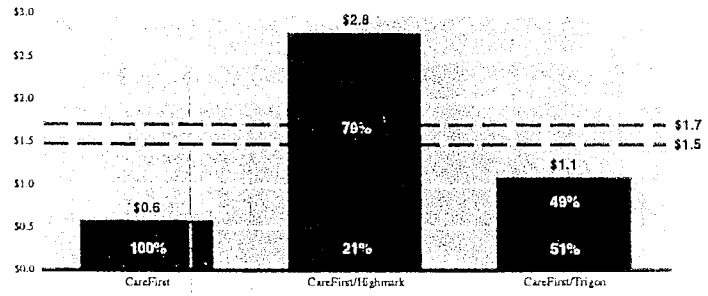
A transaction with either Highmark or Trigon will move CareFirst significantly closer to its strategic goals.

($ in billions and members in millions)

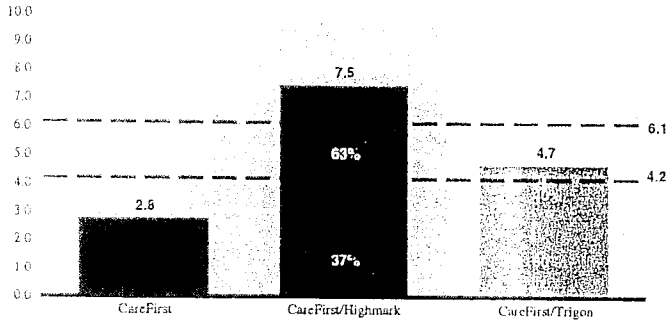
REVENUES (1)



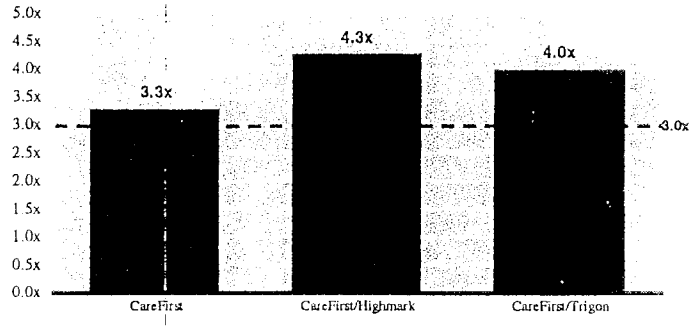
CAPITAL (2)



MEMBERS (3)



MARKET SHARE (4)



Note: Dotted lines represent target range.
(1) Based on premium equivalents.
(2) Based on statutory amounts.
(3) Includes health members and excludes ancillary members.
(4) Represents market share as a multiple of its next largest competitor. Source: NRC data.
(5) Comprised of MD, DE and DC.
(6) Comprised of MD, DE, DC, PA and WV. Highmark's market share includes members from the following Plans: Highmark BCBS, Independence Blue Cross, Capital Blue Cross and Blue Cross of NE PA.
(7) Comprised of MD, DE , DC and VA.

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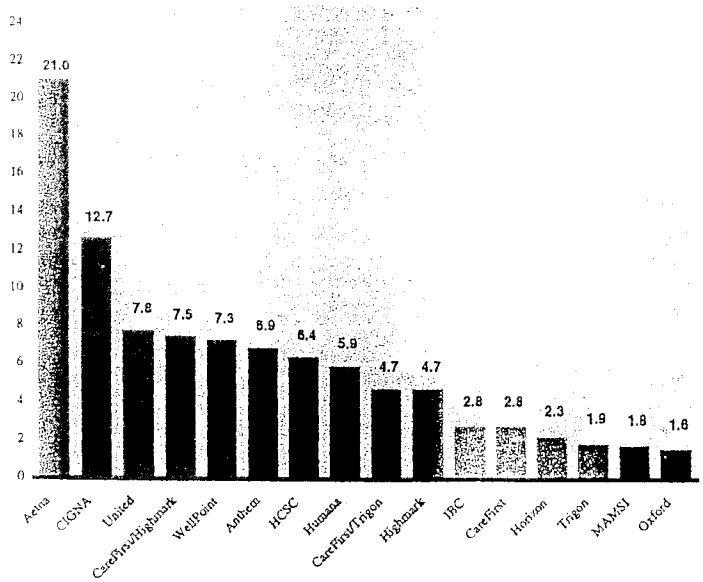
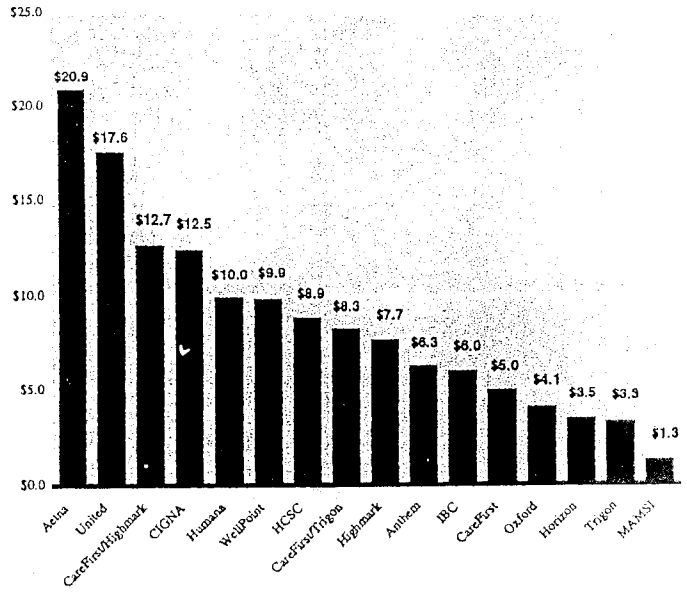
COMPETITIVE COMPARISON

As a combined entity, CareFirst and either partner clearly become one of the largest competitors in the region.

MEMBERS (1)
(members in millions)



REVENUES (2)
($ in billions)



Source: Company Reports, Press Releases and BCBS Association.
(1) Includes only health members.
(2) Revenues are adjusted for premium equivalents where data is available.

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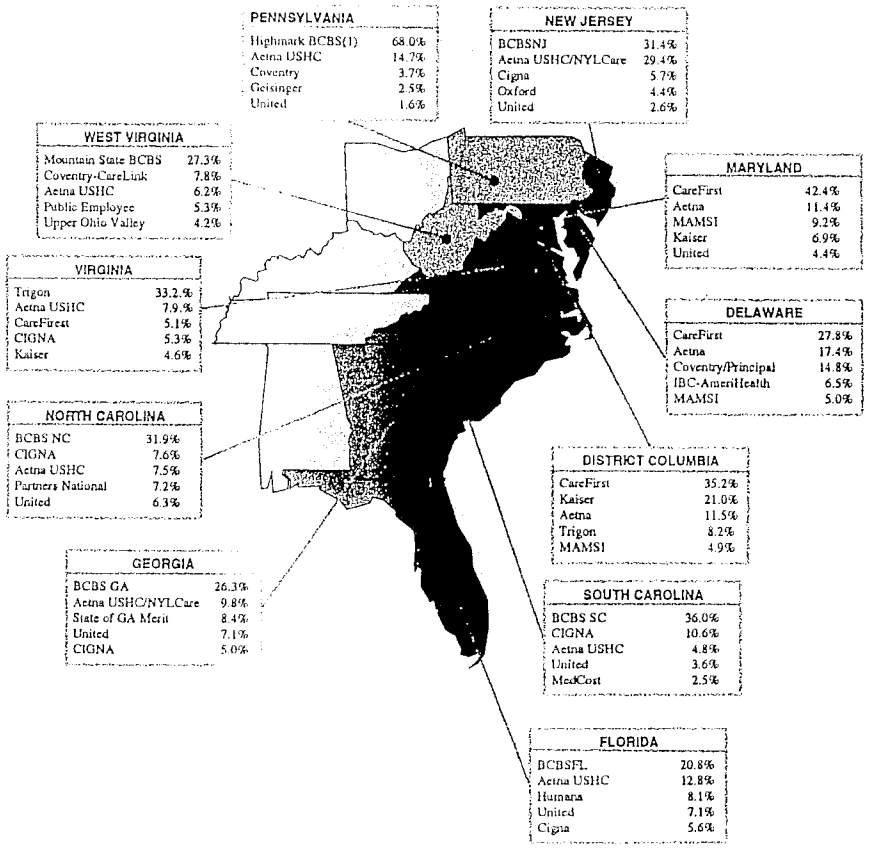
MARKET SHARE

Both potential partners hold substantial leadership positions in their respective service areas, and represent a platform for continued geographic expansion.



Source: NRC data supplied by CareFirst.

(1) Highmark's market share includes members from the following Plans: Highmark BCBS, Independence Blue Cross, Capital Blue Cross and Blue Cross of NE PA.

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TRIGON VS. HIGHMARK

DLJ has analyzed the business case for partnering with either Highmark or Trigon across a number of criteria.

Criteria	Potential Partner: Trigon	Potential Partner: Highmark
Revenues	+ Transaction would roughly double the size of CareFirst and create the largest BCBS plan in the mid-Atlantic region with $8.3 billion in revenues + Pro forma, medical loss ratio (MLR) decreases from [90.1%] to [85.3%] (FY 2000 assuming no synergies)	+ Transaction would roughly triple the size of CareFirst and create the largest BCBS plan on the East Coast with $12.7 billion in revenues + Pro forma, MLR decreases from [90.1%] to [88.7%] (FY 2000 assuming no synergies)
Access to Capital	+ Enhances position with rating agencies + Decreases requirements to expend capital on redundant strategic initiatives + Full access to public debt and equity market	+ Enhances position with rating agencies + Decreases requirements to expend capital on redundant strategic initiatives + Provides opportunity to use for-profit subsidiaries to raise capital through equity markets – Under the affiliation scenario, the ability of the combined entity to move capital among plans would be limited by the terms of Affiliation Agreement and regulators in each jurisdiction

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TRIGON VS. HIGHMARK (CONT'D)

Criteria	Potential Partner: Trigon	Potential Partner: Highmark
Size/Scale Synergies	+ Substantial size and scale will better position the combined entity to withstand market downturns and competitive pressures from large, national competitors + Economies of scale may drive price concessions from vendors + Provides seamless provider networks, integrated customer service and standardization of medical policy across a large geographic region + Increased market presence should allow combined entity to negotiate more favorable contracts with providers + Potential to create a unified "NewCo BCBS" brand name across the greater mid-Atlantic marketplace from DE through VA + Significant opportunities for revenue synergies in northern VA marketplace (especially along the Route 123 corridor) + Solid information system and mature physician relationship helps contain medical costs below national averages	+ Substantial size and scale will better position the combined entity to withstand market downturns and competitive pressures from large, national competitors + Economies of scale may drive price concessions from vendors + Provides opportunity to improve health care through centers of excellence, integrated care management, management of health outcomes data, expansion of Disease State Management ("DSM") – Potential synergies will be impacted by terms of Affiliation Agreement and regulatory and political constraints in each jurisdiction
Ancillary Products	+ Opportunity to explore co-development of ancillary lines of business	+ Opportunity to grow ancillary dental and vision care products + Enhances ability to cross sell business—expanding health insurance market penetration

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TRIGON VS. HIGHMARK (CONT'D)

Criteria		Potential Partner: Trigon		Potential Partner: Highmark
Control		CareFirst would contribute approximately 45%-60% of the operations of the combined entity suggesting a merger of equals transaction and a relatively high level of influence by CareFirst's existing management and Board of Directors	–	CareFirst would likely constitute between 30%–40% of the operations of the combined entity The reorganization will be governed by a combined board representing each organization, which increases complexity
Timing		Time consuming process with higher probability of significant media, political and regulatory scrutiny Timing will be governed by both the regulatory conversion process, as well as public company requirements		Time consuming process with somewhat lower probability of significant media, political and regulatory scrutiny than conversion Multi-jurisdictional renegotiation of existing affiliation and snapshot agreements
BCBSA Licensure Requirements		The merged entity would become a single BCBSA licensee responsible for complying with the requirements of the BCBSA		All five plans (three CareFirst Plans plus Highmark and Mountain State) would continue to exist as separate BCBSA licensees and each would be responsible for complying with the requirements of the BCBSA
Other	+	Trigon management team is experienced with BCBS conversion process, and managing a public company The window of opportunity may be very limited given Trigon's public statements that it intends to undertake a strategic transaction	+	Management has indicated a desire to enter into a transaction Highmark is committed to retaining its not-for-profit staus

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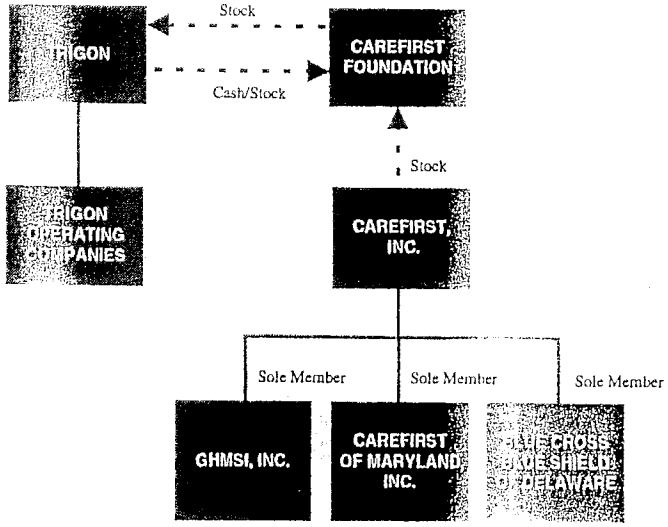
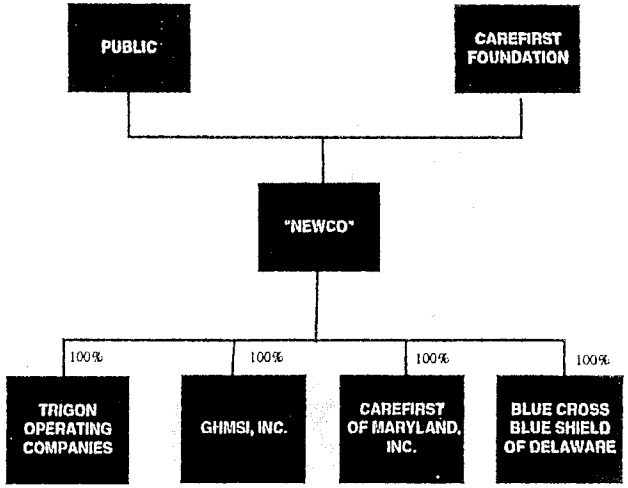
POTENTIAL TRIGON TRANSACTION STRUCTURE

In the most likely scenario, CareFirst would enter into a stock and/or cash merger with Trigon while simultaneously converting to a stock-corporation.

Current Structure



Post-Merger



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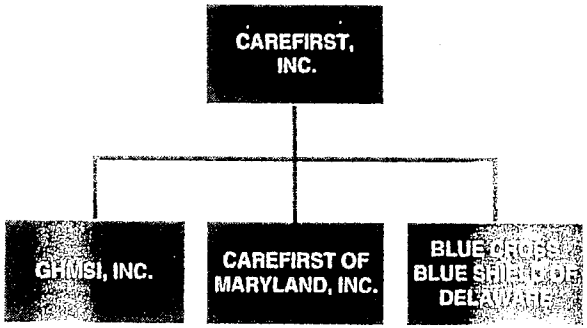
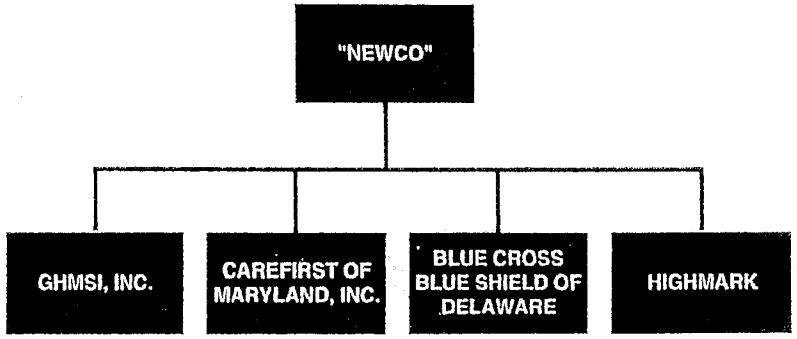
POTENTIAL HIGHMARK TRANSACTION STRUCTURE

In a transaction with Highmark, CareFirst would most likely enter into an affiliation agreement.

Current Structure



Post-Affiliation



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NEXT STEPS: DUE DILIGENCE & TERM SHEET

The following steps are planned to commence detailed due diligence with Trigon:

- CareFirst assembles "data room" for Trigon due diligence
- Trigon Executive Team and Merrill Lynch interview key CareFirst executives
- Trigon Executive team and Merrill Lynch review CareFirst data
- Merrill Lynch prepares preliminary term sheet outlining possible deal structure
- CareFirst presents terms to Strategic Planning Committee & Board of Directors for review and approval to proceed
- CareFirst initiates due diligence of Trigon

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BOARD MEETING: AGENDA & EXPECTATIONS

At CareFirst's annual Board meeting, we will review our findings regarding geographic expansion opportunities, and solicit feedback on direction. In particular, we will cover:

- Industry and Market Overview
- The "Case for Change"
- Strategic Alternatives
- Profile of Potential Partnership Candidates
- "Do-Ability" Discussion
- Due Diligence Process Overview
- Recommendations & Next Steps

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